

# Town of Wellesley Town-Wide Financial Plan Overview



**OCTOBER 1, 2014**

# Agenda



- Town Finance Basics
- Town-Wide Financial Plan
- FY16 Budget Outlook
- School Facilities Master Plan
- North 40 Acquisition
- 900 Worcester Acquisition
- Tax Rate and Median Tax Bill

# Town Finance Basics



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# Town Finance Basics

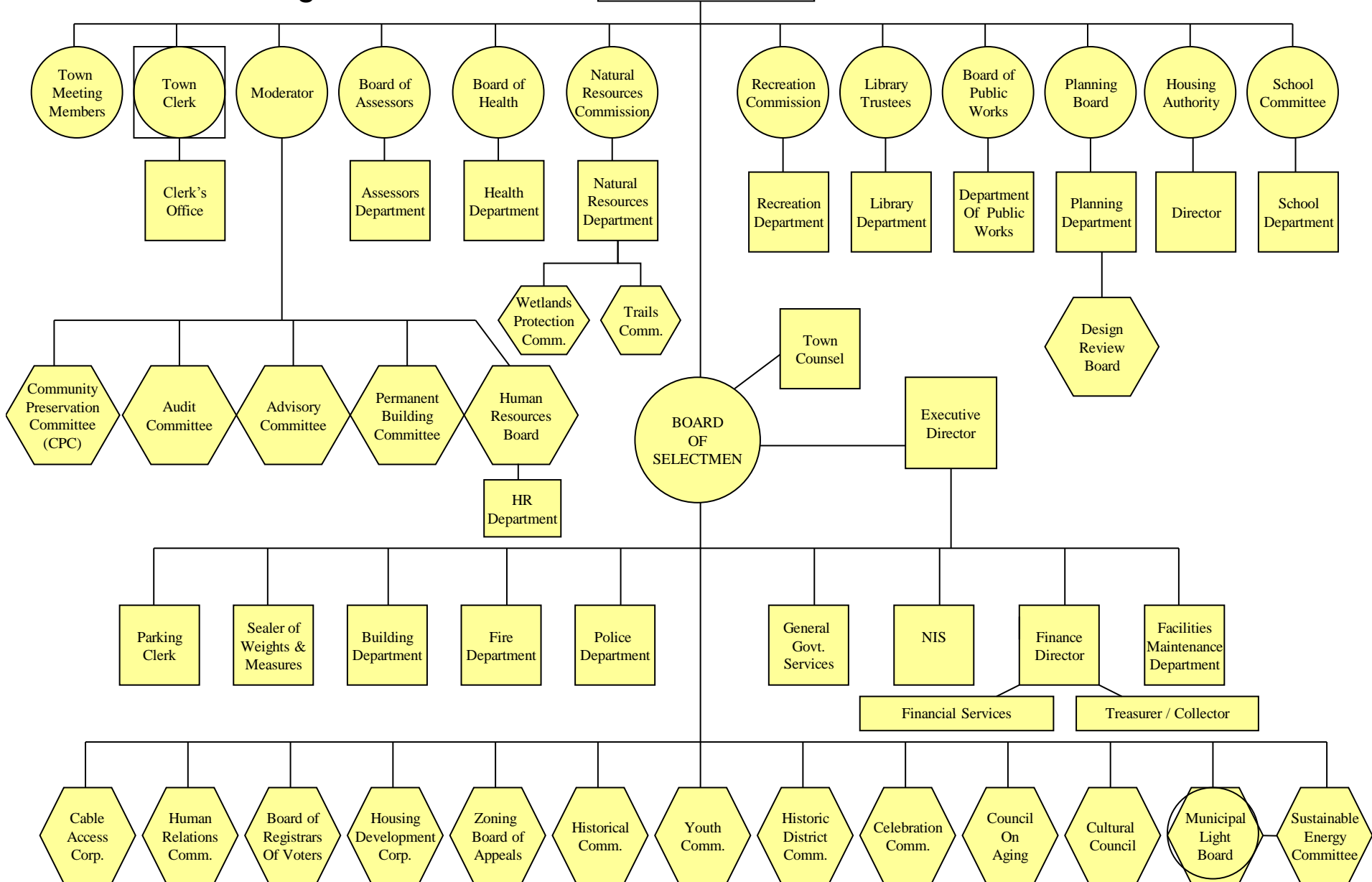
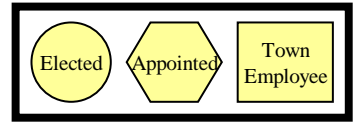


- Structure of Wellesley's town government
- Municipal finance basics
- Sources & Uses of Funds
- Collective bargaining
- Proposition 2 1/2
- Tax rate
- Financial reserves
- Additional sources of information



# Wellesley Town Government Organization

## VOTERS



# Municipal finance terms



- Appropriation
- General Fund
- Special Revenue Funds
  - Revolving funds, e.g.: Recreation
  - School lunch
- Enterprise Funds, e.g.:
  - MLP
  - Water
  - Sewer
- Fiscal year, e.g., FY15

# Other key concepts



- Article 8 (omnibus budget Article)
- Personal Services / Expenses
- Proposition 2 1/2
  - Override
  - Debt exclusion
- “Inside the levy”
- “Level principal” vs. “level payment” debt service

# Financial statements



## Private Sector

Revenue

- Cost of sales

= Gross margin

- Operating expense

= Profit/loss

## Town Government

### Sources of funds

- Property taxes
- Local revenue
- State aid

*must equal*

### Uses of funds

- Personal services
- Expenses
- Cash capital
- Debt service



# Balance sheet



## Private Sector

- Assets
- Liabilities
- Shareholders' equity

## Town Government

- Assets
- Liabilities
- Fund balance
  - Reserved for continuing appropriations
  - Reserve for encumbrances
  - Undesignated

# Sources of funds



	<b><u>FY15</u></b>	<b><u>%</u></b>	<b>5 Year <u>CAGR</u></b>
Property taxes	\$ 119,765,311	84.5%	3.3%
State aid	8,996,255	6.4%	5.1%
Local revenue	10,443,703	7.4%	1.1%
Other	2,464,151	1.7%	12.5%
	<u>\$ 141,669,420</u>	<u>100%</u>	

# Local revenue



	<b><u>FY15</u></b>
Motor vehicle excise	\$ 4,399,330
Investment income	204,400
Licenses and permits	1,783,390
RDF	648,970
Pilot payments	229,950
Parking fines & forfeits	505,890
Meals tax, hotel/motel	541,660
Recreation transfer	125,000
Penalties, interest on taxes	185,000
Rentals	140,000
Fees	103,000
Departmental	215,000
Medicare part D	217,000
All other	145,113
	<u><u>\$ 9,443,703</u></u>

# Uses of funds



	<b><u>FY15</u></b>	<b><u>%</u></b>	<b><u>5 Year CAGR</u></b>
Schools	\$ 63,524,619	44.8%	4.3%
Facilities Maintenance	6,732,558	4.8%	6.7%
Other Town Departments	26,621,394	18.8%	1.6%
Cash Capital	4,282,768	3.0%	9.0%
Debt Service	12,871,061	9.1%	5.0%
Employee Benefits	25,837,021	18.2%	5.6%
Abatements & Other	1,800,000	1.3%	11.4%
	<u>\$ 141,669,421</u>	<u>100%</u>	

# Biggest cost driver for large departments



## *Wage increases for existing union positions*

a) Step increases for employees not yet on top step



b) Any new steps or step changes



c) General wage increase for all bargaining unit members (yet to be negotiated)

# Mandatory subjects of collective bargaining



- Wages
- Hours, standards or productivity and performance
- Other terms and conditions of employment
  - e.g., health insurance plan design

# Union contracts



## **Bargained by School Committee**

- Teachers
- School Secretaries

## **Bargained by MLP**

- MLP Production

## **Bargained by Selectmen**

- School Custodians
- Police Patrolmen
- Police Superior Officers
- Dispatchers
- Firefighters
- Library Association
- DPW Production
- DPW/MLP Supervisors

*All contracts settled through FY16*

# Contract details



	<b><u>Police Patrolmen</u></b>	<b><u>Superior Officers</u></b>	<b><u>Firefighters</u></b>	<b><u>DPW Production</u></b>	<b><u>Teachers</u></b>
Budgeted positions	32	9	53	80	478
Steps	4	1	4	6	16
Average step value	5.6%	N/A	5.6%	5.3%	4.2%
% employees on steps	22%	N/A	21%	6%	57%
FY15 Contract increase	2%	2-2.5%	2.0%	2.0%	2% (mid-year for Steps 1-15)
FY15 Budget increase	2.2%	2.2%	2.1%	3.2%	6.3%



# Fully allocated S&U



	<b><u>FY15</u></b>	<b><u>%</u></b>
Schools	\$ 88,951,894	62.8%
Police & Fire	16,365,738	11.6%
DPW	11,738,567	8.3%
Facilities	9,689,505	6.8%
Selectmen	4,786,924	3.4%
Library	3,934,208	2.8%
Other Depts.	6,202,586	4.4%
	<b><u>\$ 141,669,422</u></b>	<b><u>100%</u></b>

# Proposition 2<sup>1/2</sup>



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# Proposition 2½ - Key concepts



- Annual levy growth limited to 2.5% + New Growth
- Override
  - Permanent increase in tax levy
  - Requires favorable action by voters
- Debt exclusion
  - Temporary increase in taxes to pay for specific item, e.g., debt service on a building project
  - Requires favorable action by voters

# Setting of tax rate



- **Board of Assessors**
  - Determine assessed values
  - Distinguish between Commercial and Residential
- **Board of Selectmen**
  - Hold a public hearing each year (late November/early December)
  - Determine whether to set a single tax rate, or “split” the rate

*Tax rate certified by DOR in December and final tax bills mailed before December 31<sup>st</sup>*

# Prop 2 1/2 Levy - FY14



Prior year levy	\$ 97,401,131
2.5% Levy growth	2,435,028
New Growth	1,575,028
Override	-
Exclusions	
- OPEB	1,800,000
- Sprague	327,319
- Middle School	2,617,442
- High School	6,050,923
- Other	373,849
Levy Plus Exclusions	<u><u>\$ 112,580,720</u></u>

# Tax rate calculation – FY14



Levy Plus Exclusions	\$ 112,580,720
Total Assessed Value	9,755,135,000
Tax Rate (per 1,000)	11.54
Median Assessed Value	896,000
Median Tax Bill	\$ 10,340

# Override history



	<b>Cumulative Overrides <u>FY99-FY15</u></b>	<b>FY14 <u>Levy Limit</u></b>	<b>Overrides as % of <u>Levy Limit</u></b>
Wellesley	\$ 17,252,927	\$ 101,411,187	17.0%
Wayland	8,446,000	59,546,607	14.2%
Concord	8,528,537	72,879,506	11.7%
Lexington	13,505,193	141,843,659	9.5%
Belmont	5,400,000	69,920,766	7.7%
Needham	7,621,697	98,925,881	7.7%
Newton	19,900,000	279,241,788	7.1%
Weston	3,560,000	63,499,070	5.6%
Brookline	6,200,000	174,686,607	3.5%

# Financial Reserves



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# Free Cash



- Cash available for appropriation by Town Meeting
- Accumulates as the result of conservative budgeting, i.e.,
  - Excess revenues; or,
  - Unspent budget (“turn-back”)
  - Certified each year by Department of Revenue
- Net of funds encumbered for prior appropriations
- Appropriations from Free Cash require a simple majority

# Stabilization Fund



- Funds set aside to help stabilize results of operations
  - Typically used for nonrecurring needs
- Created by Town Meeting action
- Fund balance earns interest
- Appropriation from Stabilization Fund requires a 2/3rds majority

# Additional sources of information



- Town Bylaws
- Annual Report
- Comprehensive Annual Financial Report
- Official Statement related to debt offerings
- Advisory Book
- Tax Classification Hearing document

# Town-Wide Financial Plan



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# Selectmen's role



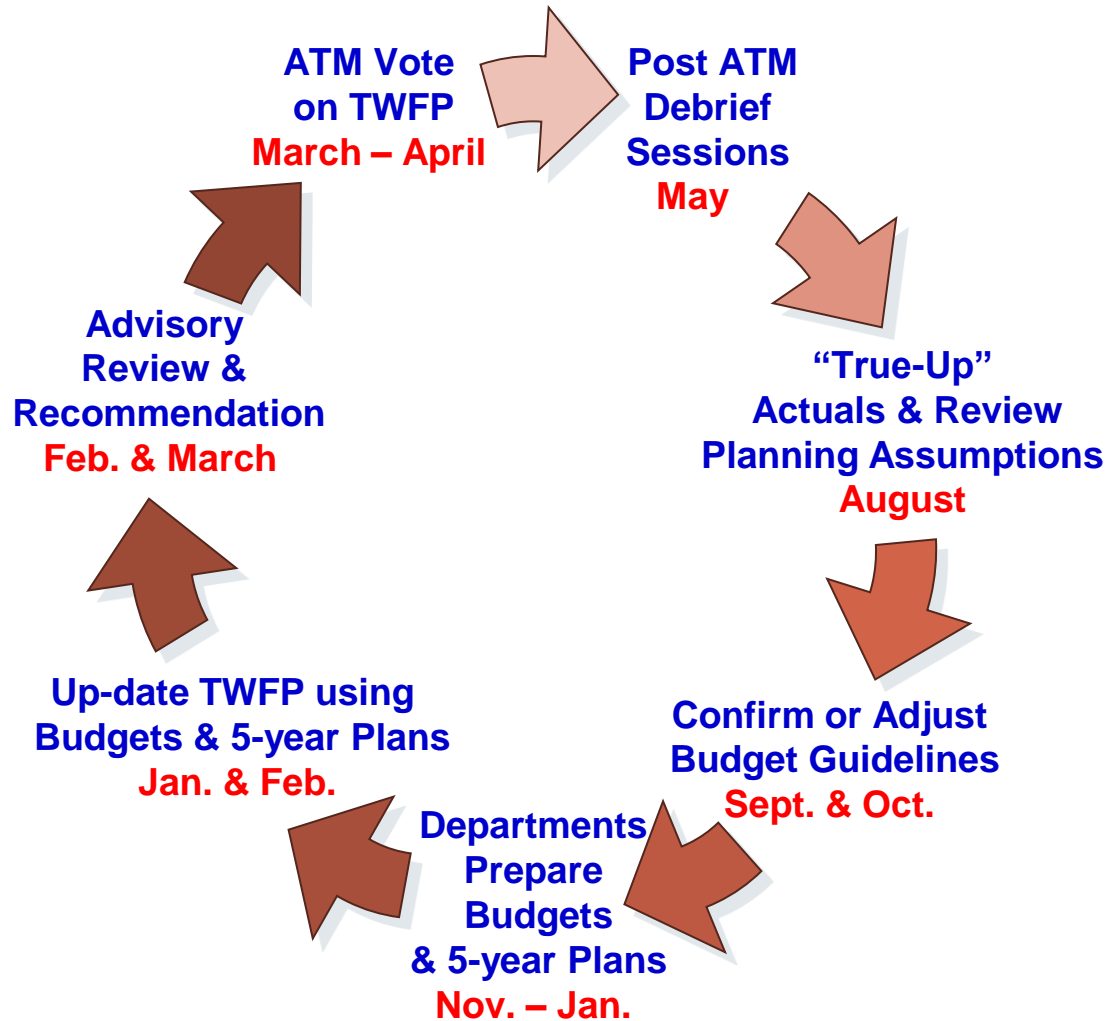
## Per Bylaw

“... work with other boards in coordinating the preparation of the Town-wide budget ...”

“... compile and present to the Annual Town Meeting a Town-Wide Financial Plan ...”

*i.e., – balance the residents' appetite for services against their willingness to pay*

# TWFP CYCLE

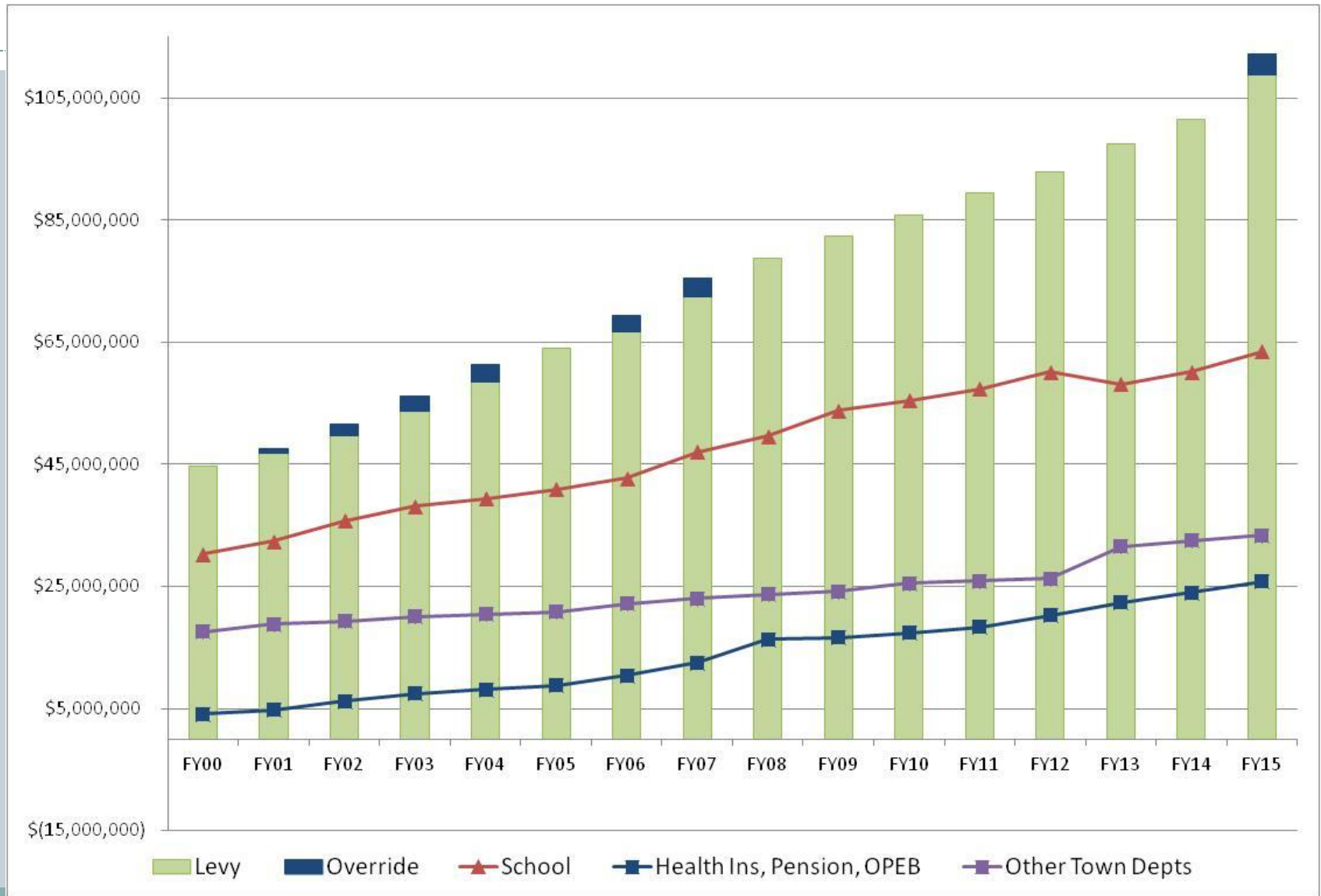


# Big picture



- **Override history**
  - 6 from FY01-FY07; none from FY08 – FY14
  - \$3.345M override approved for FY15
- **Financial reserves rebuilt**
- **Pension and OPEB funding ramped up**
- **Health insurance remains a challenge**
- **Addressing backlog in facilities maintenance**
  - School Facilities Master Plan a key component
- **Other major projects pending**
  - North 40 / 900 Worcester / Tolles-Parsons Center

# Financial trends





# Reserves



- Careful management of reserves has been a Selectmen priority
  - Reserves policy has established a floor (8% of revenue)
- Since FY04, we have:
  - Rebuilt Free Cash from <\$1M to > \$10M
  - And appropriated \$24M from Free Cash

***Conservative budgeting has reduced the Town's risk profile and provided financial flexibility***

# Reserve comparison – AAA Communities



	<b>2013 Free Cash &amp; Stabilization</b>	<b>2014 Net Revenue</b>	<b>Reserves as % of Revenue</b>
Dover	\$ 6,495,962	\$ 33,440,735	19.43%
Concord	15,192,380	87,022,341	17.46%
Hingham	12,958,685	90,746,267	14.28%
Winchester	12,710,840	95,534,199	13.31%
Lexington	23,776,532	187,834,273	12.66%
Needham	16,088,944	133,826,002	12.02%
<b>Wellesley</b>	<b>14,044,858</b>	<b>137,361,813</b>	<b>10.22%</b>
Wayland	5,631,078	70,543,583	7.98%
Belmont	6,420,165	92,722,245	6.92%
Weston	3,182,126	80,932,905	3.93%

# FY16 Outlook



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# FY16



- Deficit as projected at 2014 ATM - \$2.8M
  - Assumed \$1.15M use of Free Cash
- Stronger than expected 6/30/14 Free Cash balance warrants greater use
  - Increased to \$2.5M

# FY16 Assessment



## ***Incremental revenue***

Property taxes	\$ 4,220,559
State aid	179,925
Local revenues	430,297
Other	35,849
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	4,866,630

## ***Spending growth***

Schools	2,858,608	4.5%
FMD	168,314	2.5%
Other Town Depts.	665,535	2.5%
Employee benefits	1,015,955	
Cash capital	1,088,617	
Debt service	304,083	
Other	45,000	
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	6,146,112	

## ***Deficit***

\$ (1,279,482)

- Assumes use of \$2.5M of Free Cash

# FY16 Budget guidelines



- One scenario for reducing deficit to \$.4M
  - Reduce Schools' increase to 4.0%
  - Reduce FMD and other Town Depts. to 2.25%
  - Reduce Cash Capital to \$5M
- Awaiting enrollment and other trend data/analysis from School Dept. before finalizing guidelines

# Near-term capital decisions



- **October 27<sup>th</sup> Special Town Meeting**
  - Schofield/Fiske renovations
  - Middle School windows
  - North 40
  - 900 Worcester
- **2015 Annual Town Meeting**
  - Tolles-Parsons Center
- **Future Town Meeting**
  - Hardy/Hunnewell/Upham replacement/renovation
  - Middle School infrastructure

# School Facilities Master Plan



- Schofield/Fiske renovations (\$19.3M) – Fall 2014
- Middle School windows (\$3.7M) – Fall 2014
- Middle School infrastructure (\$7m) – 2018
- Hardy/Hunnewell/Upham (\$89.9m)– 2018/2020



# North 40



- Town responding to College's RFP later this week
- Modeling \$25M purchase price (Assessed Value) to illustrate potential impact
- With 30% (\$7.5M) CPA contribution
- Also projecting to use taxable debt to fund a portion of site
  - To allow flexibility regarding private development

# North 40 purchase price allocation



	<u>Acres</u>	<u>Cost</u>
Total property	46.76	\$ 25,000,000
CPA portion (30%)	<u>14.03</u>	<u>7,500,000</u>
General Fund portion (70%)	32.73	17,500,000
General Fund allocation		
- Taxable	8.00	4,277,160
- Tax exempt	<u>24.73</u>	<u>13,222,840</u>
	32.73	17,500,000

# North 40 – Economic impact of private development



		<u><b>Annual Impact</b></u>
<b><i>Potential property tax revenue</i></b>		
Land cost	\$35M	
Improvements	2x Land cost	
Tax Rate	\$11.54	\$ 1,211,700
<b><i>Less: Variable costs associated with new development</i></b>		
<b><i>Schools</i></b>		
100 Children less 25% under age 5 @ \$9K/student		675,000
<b><i>DPW</i></b>		
Per 8/4/14 note from Dave Cohen		240,000
<b><i>MLP</i></b>		
		-
<b><i>Other</i></b>		
		-
		<hr/>
		\$ 296,700

# 900 Worcester



- Town just completed due diligence
- Demolition costs significantly greater than originally estimated
  - Will require further Town Meeting appropriation
- Currently negotiating with Archdiocese regarding:
  - Closing delay
  - Purchase price adjustment
- With advent of North 40 opportunity, Selectmen proposing to eliminate use of CPA funds

# 900 Worcester cost



	Appropriations	Payments			Excess/
	To-date	To-date	ETC	Total	(Shortfall)
<b>Acquisition Costs</b>					
Purchase Price	\$ 3,800,000	\$ -	\$ 3,800,000	\$ 3,800,000	\$ -
Property Tax bills	83,933	58,006	13,228	71,234	12,699
Survey, Site Assmt., Wetlands	53,742	51,145	5,000	56,145	(2,403)
Oil Tank Removal	5,500	-	5,995	5,995	(495)
Building Demolition	163,825	-	951,000	951,000	(787,175)
Legal	40,000	20,000	10,000	30,000	10,000
<b>Post-Acquisition Costs</b>					
Aquatic Facility Needs	-		50,000	50,000	(50,000)
Traffic Study	35,000		50,000	50,000	(15,000)
Stormwater/Flood Plain/Hydrology	-		50,000	50,000	(50,000)
Legal	-		25,000	25,000	(25,000)
Other Consultants	25,000	5,000	15,000	20,000	5,000
	<b>\$ 4,207,000</b>	<b>\$ 134,151</b>	<b>\$ 4,975,223</b>	<b>\$ 5,109,374</b>	<b>\$ (902,374)</b>

# 900 Worcester financing plan



- In light of North 40 opportunity, Selectmen proposing to:
  - Eliminate use of CPA funds and resulting Open Space restrictions
  - Target new playing field(s) on North 40
- Will allow more flexibility for development of site for rink and pool
- Funding with taxable debt will enable private development of those facilities

# Next steps



- Finalize negotiations on North 40 and 900
- October 27<sup>th</sup> Special Town Meeting
- Early December debt exclusion vote
  - Schofield/Fiske renovations
  - Middle School windows
  - North 40 acquisition

# Potential New Growth related to private development of North 40



- Land cost likely to be higher than assessment
  - Assume \$35M
- Buildout likely to be at least 2X land cost
  - Assume \$70M
- Assume for the moment that Assessed Value = Cost

$$(\$35\text{M} + \$70\text{M}) \times \$11.54/1,000 = \$1.2\text{M}$$



# Median Tax Bill



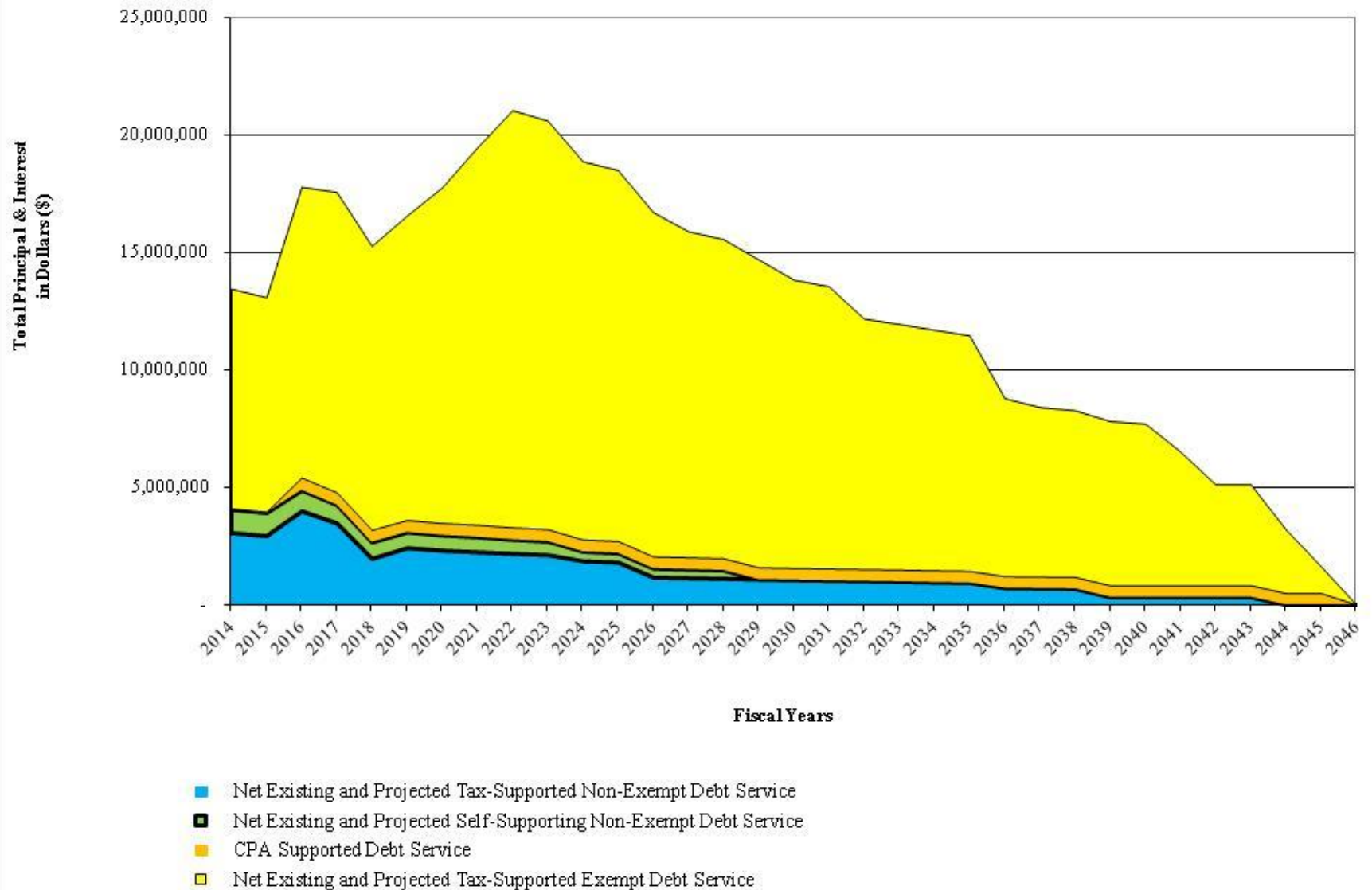
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# Tax bill impact



	Term (Yrs.)	Year	Peak Impact		
			Debt Service	Median Tax Bill	Tax Rate
Hardy/Hunnewell/Upham	20/25	FY22	\$ 7,199,500	\$ 661	\$ 0.74
Schofield/Fiske	20	FY17	2,031,963	187	0.21
North 40	30	N/A	1,140,000	105	0.12
Tolles-Parsons Center	25	FY17	585,565	54	0.06
Middle School infrastructure	20	FY19	663,875	61	0.07
Middle School windows	10	FY16	535,825	49	0.05
900 Worcester	30	N/A	332,250	31	0.03

# **Town of Wellesley, Massachusetts** **Breakdown of Existing and Projected Net Debt Service Categories**



# Median tax bill



	<b><u>FY15</u></b>	<b><u>FY16</u></b>	<b><u>FY17</u></b>	<b><u>FY18</u></b>
Prior year	\$ 10,340	\$ 10,885	\$ 11,455	\$ 11,779
Levy growth	259	272	286	294
Override	307	-	-	-
Exclusions	(21)	298	38	(64)
Current year	<u>\$ 10,885</u>	<u>\$ 11,455</u>	<u>\$ 11,779</u>	<u>\$ 12,010</u>

# Potential offsets to tax bill growth



- MSBA reimbursement
  - Middle School windows
  - Hardy/Hunnewell/Upham
- Future re-purposing of an elementary school site
- Revenue from private development of some portion of North 40 or 900 Worcester

# Recent Boston Business Journal article



- Wellesley has 6<sup>th</sup> highest average property tax bill in the State
- Top 10 communities:
  - Weston, Sherborn, Lincoln, Dover, Carlisle, Wellesley, Concord, Sudbury, Lexington, Wayland

***i.e., our peer communities***

# Putting that into perspective



- Only one community in the top 25 (Manchester) has a lower tax rate
- Wellesley's rate is 29% lower than the average for the other top 10
- Wellesley residents are paying less of their housing dollars on property taxes

# Key topics for next session – October 16th



- Health insurance
- Pension
- OPEB (including results of 7/1/14 valuation)
- Update on North 40 and 900 Worcester negotiations



Presentation available  
[@wellesleyma.gov](mailto:@wellesleyma.gov)



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# Questions & Answers



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